Attachment 3

MEMORANDUM

To: Members of the Investment Committee
California Public Employees' Retirement System

Date: June 13, 2011

From: Pension Consulting Alliance, Inc. (PCA)

RE: Real Estate Performance through March 31, 2011

PCA has received and reviewed Wilshire's First Quarter 2011 Executive Summary of CalPERS' Investment Performance as it relates to the Real Estate Portfolio. The following items should be considered in your assessment of Real Estate's performance:

- In an illiquid asset class populated with multi-year partnerships, longer term results are more significant than those of a shorter duration. However, it is worth noting that the Real Estate portfolio beat its policy index for the first quarter of 2011.

- Over the long-term, the real estate program has had poor results with a -25.0%, -11.4% and 2.0% return over the trailing three-, five- and ten-year periods, respectively. As previously articulated, this performance has been driven by three factors: i) the vintage-year concentration during the 2005 to 2007 period; ii) the high exposure to non-stabilized properties; and iii) high amounts of leverage. These final two factors have exacerbated the recent underperformance to the benchmark as non-stabilized assets provide less income to insulate valuation declines and increased leverage magnifies returns in upward and downward market cycles.

- The total Real Estate Portfolio produced a 5.8% return during the quarter and a 2.7% return over the trailing year compared to the Policy Index returns of 4.9% and 15.9%, respectively.

- The Public REITs, which represent approximately 7.3% of the market value of the Real Estate Portfolio, had strong one-year performance turning in an 18.8% return, but still lagged the REIT benchmark, the FTSE EPRA NAREIT index, by approximately 50 basis points.

- The Core Portfolio continued had strong quarterly and one-year performance with returns of 10.2% and 19.5%, respectively. The Core Portfolio was reappraised as of March 31, 2011 and had appreciation particularly in the Apartment and Retail programs. The March 31, 2011 appraisals captured the impact of cap rate compression across US real estate despite only spotty and moderate improvement in fundamentals.

- The Opportunistic Portfolio turned in a 3.2% return for the current quarter which lagged its policy index which had a quarterly return of 5.6%.

- The market value of the Real Estate Portfolio as of March 31, 2011 was $17.7 billion, which represents an increase of $3.0 billion or 20% from last year (March 31, 2010). The overall increase in value in the Real Estate Portfolio is attributable primarily to new equity that has been funded for deleveraging assets.

- As of September 30, 2010 the real estate asset class represented 7.3% of the total CalPERS portfolio, below the target allocation of 10.0%.

- The under allocation to real estate should give Staff the flexibility to take advantage of potential opportunities that may present themselves due to the distress in the real estate market. Since the beginning of 2011, approval was given to annual investment plans for five core strategic partners to invest up to $1.8 billion in their portfolios to accomplish acquisition, capital improvement and deleveraging objectives. Together with the current trend of generally increasing property values and the potential funding of previously committed amounts to commingled funds, these new amounts, if invested, should bring the real estate portfolio closer to its target allocation.

- At the February 2011 Investment Committee meeting, the proposed Real Estate Strategic Plan was approved. This plan will provide for the implementation for the revised role of real estate as described in the recent asset allocation study. This role will be primarily to provide reliable current income and diversification from public and private equity return characteristics. Therefore, the portfolio will be shifted in emphasis over time towards strategic, stabilized, domestic core assets held for a longer term, and away from more tactical, opportunistic, appreciation-oriented investments held for a shorter term.

- The Loan-To-Value (LTV) policy limit is no longer in breach for the total portfolio with a 50.3% LTV. In addition, the Core portfolio is now in compliance with its LTV limit of 45% with an LTV of 42.6%. Staff continues to implement a deleveraging plan that addresses loan-to-value (LTV) considerations, recourse debt limits, and existing, prospective and potential covenant breaches and defaults. These efforts are expected to stabilize the portfolio and relieve Staff from the intense asset-level management responsibilities that have accompanied the distressed debt situations that pervade the portfolio.

Respectfully,

Paul Mouchakkaa

Managing Director